

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CCO-00 CIAE-00 OTPE-00 EB-08 FCC-01
INR-07 NSAE-00 OC-06 USIA-06 COME-00 BIB-01 CU-04
ITC-01 STR-05 PA-01 PRS-01 SP-02 /056 W
-----025283 020038Z /61

R 020004Z DEC 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 5538

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 10063

E.O. 11652: GDS
TAGS: ETEL, ETRD, SCUL, CA
SUBJECT: CONSIDERATION OF ACTIONS TO INHIBIT U.S.
ENTERTAINMENT MEDIA IN CANADA

1. SUMMARY. GOC CONSIDERING PROPOSAL BY ITS SECRETARY OF STATE TO IMPOSE EXCISE TAX ON FOREIGN FILMS IN CANADA AND OTHER MEASURES TO ENCOURAGE DOMESTIC MOVIE INDUSTRY. SIMILAR ACTIONS ARE BEING STUDIED WITH REGARD TO TV PROGRAMMING. PROPOSALS MAY GO NOWHERE, BUT WE CANNOT BE CERTAIN. REQUEST THAT I BE INSTRUCTED TO MAKE FAIRLY STRONG DEMARCHE. END SUMMARY.

2. WE HAVE LEARNED THROUGH VARIOUS CONTACTS, INCLUDING IN PRIME MINISTER'S OFFICE, THAT GOC SECRETARY OF STATE ROBERTS HAS PROPOSED TO CABINET IMPOSITION OF TEN PERCENT EXCISE TAX ON DISTRIBUTION OF ALL FOREIGN FILMS IN CANADA TO GENERATE FUND WHICH WOULD BE USED TO SUBSIDIZE PRODUCTION AND DISTRIBUTION ABROAD OF CANADIAN FEATURE FILMS. CREDIT AGAINST CANADIAN INCOME TAX OF EARNINGS FROM FOREIGN DISTRIBUTION MAY ALSO BE ASPECT OF THIS SCHEME. REPORTEDLY, CABINET UNENTHUSIASTIC ABOUT PROPOSAL AND HAS REFERRED IT TO DEPARTMENT OF FINANCE FOR STUDY. IT MAY DIE THERE BUT WE CANNOT BE CERTAIN.

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3. SCHEME IS OPPOSED BY CANADIAN MOTION PICTURE DISTRIBUTORS ASSOCIATION (CMPDA) AND BY MOTION PICTURE ASSOCIATION OF AMERICA (MPAA). ACCORDING TO CMPDA EXECUTIVE DIRECTOR, MPAA PRESIDENT VALENTI IS CONCERNED THAT OTHER IMPORTERS OF U.S. FILMS MIGHT EMULATE CANADIAN EXAMPLE AND VISITED HERE SEVERAL WEEKS AGO TO TRY TO HEAD SCHEME OFF. IN DISCUSSION WITH ROBERTS, HE TENTATIVE-

LY OFFERED TO ASSURE DOUBLING NUMBER OF CANADIAN FEATURE FILMS DISTRIBUTED IN U.S. (TO 4-6) WHICH WOULD NET CANADIAN PRODUCERS APPROXIMATELY SAME AMOUNT AS WOULD BE GENERATED BY EXCISE TAX (CDOLLARS EIGHT MILLION). SO FAR, HOWEVER, PROPOSAL HAS NOT BEEN CONFIRMED.

4. IMPACT OF EXCISE TAX WOULD FALL MOSTLY ON U.S. PRODUCTS, WHICH ACCOUNT FOR 55 PERCENT OF FEATURE FILMS DISTRIBUTED IN CANADA AND 80-90 PERCENT OF BOX OFFICE RECEIPTS. PROTECTIONIST APPROACH WHICH UNDERLIES TAX SCHEME IS INDICATIVE OF THINKING IN SECRETARY OF STATE'S OFFICE ABOUT MEANS TO STRENGTHEN CANADIAN CULTURAL IDENTITY. WE ALSO HAVE REPORTS THAT SAME OFFICE IS STUDYING WAYS TO PROMOTE CANADIAN TELEVISION PRODUCTION AND IS CONSIDERING RECOMMENDING VARIOUS TAX AND LICENSING MECHANISMS TO RESTRICT U.S. PROGRAMMING.

5. ACTION REQUESTED: THAT I BE INSTRUCTED TO MAKE DEMARCHE TO ROBERTS AND EXTAFF DEPUTY MINISTER GOTTLIEB IN WHICH I WOULD MAKE FOLLOWING POINTS:

--USG IS SERIOUSLY CONCERNED BY WHAT APPEARS TO BE TENDENCY TO TURN TO PROTECTIONIST MEASURES TO ENCOURAGE DEVELOPMENT OF CANADIAN CULTURAL EXPRESSION;

--SUCH ACTIONS ARE ESPECIALLY REGRETTABLE FOR ENCOURAGEMENT THEY GIVE TO OTHER, OFTEN DEVELOPING, COUNTRIES TO
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RESTRICT CULTURAL CONTACT IN NAME OF PROMOTING NATIONAL DEVELOPMENT;

--BY ENCOURAGING CULTURAL ISOLATIONISM, CANADA REDUCES STIMULATION FROM FOREIGN SOURCES FOR CANADIANS AND WOULD INHIBIT ITS OWN EFFORTS TO PRESENT ACCOMPLISHMENTS OF CANADIAN PRODUCERS ABROAD;

--ON THIS LATTER POINT, WE UNDERSTAND AMERICAN FILM MAKERS AND DISTRIBUTORS ARE WILLING TO DISCUSS WAYS OF INCREASING THE DISTRIBUTION OF CANADIAN FILMS IN THE U.S., HENCE INCREASED REVENUES FOR THE CANADIAN FILM INDUSTRY;

--U.S. TELEVISION AND MOVIE INDUSTRIES ARE INFLUENTIAL BY NATURE AND CAN BE EXPECTED TO TAKE RECOURSE OPEN TO THEM, POSSIBLY INCLUDING COUNTERVAILING DUTY ACTION TO OFFSET SUBSIDIES GOC MAY PROVIDE TO CANADIAN PRODUCERS;

--IF CANADA INTENDS TO PURSUE IMPOSING POTENTIALLY RESTRICTIVE MEASURES ON FOREIGN FILM AND TELEVISION IMPORTS, WE WOULD EXPECT TO HAVE AN OPPORTUNITY FOR

CONSULTATION BEFORE CONCLUSIVE DECISIONS ARE TAKEN,
SINCE IMPACT WOULD FALL MAINLY ON U.S. SOURCES.

6. OUR PRELIMINARY READING OF TAX PROPOSAL IS THAT IT
WOULD CONFLICT WITH ARTICLE III PARA 2 OF GATT. WE
WOULD APPRECIATE DEPARTMENT'S VIEW. IF DEPARTMENT
CONCURS, I WOULD ADD TO ABOVE POINTS THAT TAX PROPOSAL
IS INCONSISTENT WITH CANADA'S COMMITMENTS UNDER GATT
AND WITH EFFORTS BEING MADE IN MTN TO LIBERALIZE TRADE.

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C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 10063

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